U.S. SENATE BANKING COMMITTEE

FOR IMMEDIATE RELEASE
January 31, 2008

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Opening Statement of Chairman Dodd
"Strengthening Our Economy: Foreclosure Prevention and Neighborhood Preservation"

Remarks as Prepared:

Good morning. I want to welcome the members of the Committee and thank the witnesses for agreeing to appear today at our hearing, which is entitled "Strengthening Our Economy: Foreclosure Preservation and Neighborhood Preservation."

I also want to welcome our newest member, Senator Corker from Tennessee, who is replacing Senator Sununu. Senator Corker has a substantial background in issues relevant to this Committee – he started and ran his own construction company as well as a number of other real estate concerns, and he helped to create the Chattanooga Neighborhood Enterprise, a non-profit group designed to get low-income families into affordable housing. We look forward to his constructive contribution to the Committee's deliberations.

Let me also thank Senator Shelby and my other colleagues on the Committee for your important contributions to a productive year in 2007. The Committee held 35 hearings and passed 17 bills. This record of action is in the best, bipartisan tradition of this Committee. I look forward to continuing that tradition in this new year.

In his State of the Union address, the President called this a period of economic uncertainty. While I agree that we are in an uncertain period, what we know with some certainty is that the current economic situation is more than merely a "slowdown" or a "downturn" – it is, in many respects, a crisis of confidence. Consumers are fearful of borrowing and spending. Investors are fearful of lending.

Current economic data show how serious the problem is: Retail sales were down and unemployment up in December; credit card delinquencies are on the rise; inflation increased by 4.1 percent last year; industrial production is falling; and we have been haemorrhaging jobs in the manufacturing sector. Our economy is clearly facing more than "uncertainty." It is facing significant challenges to our nation's future economic growth and prosperity.

The epicenter of this economic crisis is the housing crisis. Housing starts are at their lowest levels in a quarter-century. The housing sector has declined for 8 straight quarters, shaving 1.2% out of our GDP in the last quarter alone. Home prices declined last year nation-wide by 6 percent, and are expected to decline again this year. To my knowledge, that would be the first time since the Great Depression that national home prices have dropped two years in a row.

The virtual collapse of the housing market was triggered by what Treasury Secretary Paulson himself has called “bad lending practices.” These are practices that no sensible banker should have engaged in. Reckless, careless, and sometimes unscrupulous actors in the mortgage lending industry allowed loans to be made that they knew hard-working, law-abiding borrowers would not be able to re-pay. And they did this in full view of our financial regulators, who acted much too late and far too timidly. Even now, the Federal Reserve is not taking the strong steps needed to protect consumers.

As a result, foreclosures are at record levels, the value of people’s homes are declining, and the tax base for state and local governments is shrinking.

The catalyst of our economic problems is the housing crisis. And the face of this housing crisis is the historic increase in foreclosures. Therefore, in my view, any serious effort to address our economic woes must include an effort to take on the causes and symptoms of the foreclosure crisis. This morning’s hearing is the beginning of that process.

A number of important steps have already been taken. After what I regret to say was months of denial and delay, the industry and the Administration finally put together the Hope Now alliance, which has developed a set of standards by which loans can be more readily refinanced or modified. It is my hope that these standards will be applied quickly and in a broad, systematic way, as FDIC Chairman Sheila Bair has been advocating.

Unfortunately, the results to date have been disappointing. Moody’s reports that only 3.5% of subprime ARMs were modified in the first 8 months of 2007. While industry data paint a more optimistic picture, the *Washington Post* pointed out that even the industry’s data show that “delinquent borrowers were almost twice as likely to lose their homes as they were to reach an agreement with their lender.” (“Foreclosures, Lenders’ Preferred Fix,” January 18, 2008).

For that reason, I believe we need to give serious consideration to other ideas. One such approach that we will hear about today is the creation of an entity I am calling the Home Ownership Preservation Corporation. In its general outline, such an entity would capture the discount for which delinquent and near-delinquent loans are trading in the marketplace through a transparent, market-based process, and transfer the discounts to the homeowners through new, lower-balance loans so that more families can keep their homes. Rather than a case-by-case approach, such an entity would purchase and restructure these loans in bulk to help many borrowers as quickly as possible. In my view, this entity should make use of existing institutions, such as FHA and the GSEs, to expedite the process and maximize efficiency. Every day that goes by without action means more families are losing their homes.

Obviously, many details need to be fleshed out – that is one of the purposes of this hearing. But the fact that this idea has been embraced by highly respected leaders of both the conservative American Enterprise Institute and the progressive Center for American Progress tells me it is well worth pursuing.

While we continue to seek out ways to prevent foreclosure, we need to take other measures as well. These include enacting comprehensive FHA reform, which can give homeowners a chance to trade in "foreclosure loans" for stable, affordable 30-year fixed rate mortgages. This bill passed this Committee on a 20 to 1 vote, and it passed the Senate by a vote of 93 to 1.

We should also help local communities cope with the rising number of foreclosed and abandoned homes that litter their communities. To that end, I believe we need to increase funding for the Community Development Block Grant (CDBG) program by $10 billion so that states and localities may acquire, renovate, and resell foreclosed and abandoned homes. These properties lead to a cycle of disinvestment, crime, falling property values and property tax collections, thereby leading to service cuts and further disinvestment. An increase in CDBG can help stop this vicious cycle of decline.

In the long-term, we also need to end the predatory lending practices that led to this problem. I introduced a bill late in the fall that will crack down on these practices and help restore consumer and investor confidence in the market. That will be a subject for future hearings.

Today, and in the coming weeks, we need to work together to help American families keep their homes, and their dreams alive.

With that, I will turn to Senator Shelby for any opening statement he wishes to make.

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